



FACTORING BUSINESS IN LABUAN

Factoring business means the business of acquiring debts due to any person or institution at a discount or such other business as approved by Labuan FSA. The Labuan factoring business is governed by the Labuan Financial Services and Securities Act 2010.

Application for Labuan factoring license

Any person intending to undertake factoring activities in Labuan may submit an application to Labuan FSA.

Kensington Trust Labuan Limited is a licensed trust company in Labuan and may assist you with license application, establishment and administration of your Labuan Company.

Who is eligible to apply?

An applicant should meet the following minimum eligibility criteria:

- > A factoring company registered under the Malaysia Banking and Financial Institutions Act 1989;
- > A special purpose vehicle (SPV) set up to facilitate inter-company factoring transactions.
- > A Labuan Company incorporated or registered under the Labuan Companies Act 1990.
- > No adverse report from any reliable sources.

Details required for application of Labuan factoring license

- > The nature of business of the applicant.
- > The composition of the Board of Directors and senior management of the applicant. Labuan FSA's prior written approval must be obtained for the appointment of directors, controller or CEO.
- > A business plan detailing the operations and strategies of the applicant in relations to its Labuan entity.
- > Audited financial statements of the applicant for the last two years if applicable.
- > Signed declaration by directors and senior staff of the applicant on confidentiality and secrecy.
- > Any other relevant information.

Labuan factoring license fees

- > **License processing fee (once-off)**
USD350
- > **Annual license fee**
USD13,000

The annual license fee is payable when the license is approved by Labuan FSA and remains valid until 31 December of the year of approval. All licensees are required to pay to Labuan FSA subsequently the annual license fees on or before 15 January of each calendar year.

Operational Requirements

- > Ensure all transactions must be done through Labuan with adequate and proper records and books of accounts maintained in Labuan.
- > Must maintain capital sufficient to manage the company's daily operations.
- > Must conduct its business with due diligence and sound principles and comply with the local laws and regulations where it services its clients.
- > To indicate clearly its name on its letterhead, stationery and other documents.
- > Appoint approved auditor in Labuan
- > To submit to Labuan FSA within three months after the close of each financial year, one copy of its audited annual balance sheet and profit and loss account.
- > To provide statistics and information as required by Labuan FSA in relation to prudential information, general business conduct and volume and direction of business in Labuan.
- > Must notify Labuan FSA of any change to its constituent documents, shareholdings, management or business plan; and
- > Must comply with any other requirements issued by Labuan FSA from time to time.



Labuan IBFC taxation system

- > Labuan Business Activity Tax Act 1990 (“**LBATA**”) governs the imposition, assessment and collection of tax on a Labuan business activity carried on in, from or through Labuan.
- > Labuan entities that carry on a **non-Labuan business activity** are subject to the provisions of the Malaysian Income Tax Act, 1967 (ITA).
- > “Labuan business activity” means:
 - > a Labuan trading or a Labuan non-trading activity carried on in, from or through Labuan,
 - > excluding any activity which is an offence under any written law.
- > Pursuant to the Labuan Business Activity Tax (Requirements for Labuan Business Activity) Regulations 2021 that took effect on 1st January 2019:
 - > Labuan trading activity has been restricted to license business activities and selected type of trading activities only. Please refer to the above Regulations 2021.
 - > Labuan non-trading activity has been restricted to holding company, namely Pure Equity Holding and Non-Pure Equity Holding.

Substance Requirement under LBATA (with effect from 1st January 2019)

- > Pursuant to section 2B(1) (b) of LBATA, the Labuan entities shall, for the purpose of the Labuan business activity, have :-
 - (i) an adequate number of full time employees in Labuan; and
 - (ii) an adequate amount of annual operating expenditure in Labuan, as prescribed by the Minister by regulations made under this Act.
- > Section 2B (1A) of LBATA provides that a Labuan entity carrying on a Labuan business activity which fails to comply with the substance requirement for a basis period for a year of assessment shall be charged to tax at the rate of twenty four per cent (24%) upon its chargeable profits for that year of assessment.
- > To benefit under LBATA, a Labuan factoring company will need to have a minimum of two (2) full time employees in Labuan and minimum annual operating expenditure of RM100,000 in Labuan.

Dealings with resident

All Labuan entities may conduct transactions with Residents of Malaysia in Ringgit Malaysia except for:

- > Issuing or offering to any Residents of Malaysia for subscription or purchase; or
- > Invite any resident to subscribe or purchase

any interest pursuant to the relevant provisions of the Interest Schemes Act 2016 where such issue or offer or invitation is made in Malaysia, other than Labuan, unless the provisions of the Interest Schemes Act 2016 are complied.

“Resident” here means:

- > in relation to a natural person, a citizen or permanent resident of Malaysia; or
- > in relation to any other person, a person who has established a place of business, and is operating in Malaysia.
- > and includes person who is declared to be a resident pursuant to paragraph 214(6)(a) of the Financial Services Act 2013 and paragraph 225(6)(a) of the Islamic Financial Services Act 2013.

The amount of deductions allowed in respect of payments made by Residents to Labuan entities are as follows:-

> Interest expense	75% deductible
> Lease rental	75% deductible
> General reinsurance premiums	100% deductible
> Other type of payments	3% deductible

Advantages and key benefits of Labuan factoring business

- > ZERO withholding tax on payments of dividend and interest to non-residents.
- > No stamp duty on all instruments relating to offshore business activities including share transfer.
- > No import duty / sales tax.
- > No foreign exchange controls.
- > No capital gain tax / inheritance tax.
- > Double Tax Agreements between Malaysia and over 70 countries.
- > 100% exemption for director’s fees received by non-citizen directors of Labuan companies.



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Every JTC person is an owner of the business and this fundamental part of our culture aligns us with the best interests of all of our stakeholders.

Our purpose is to maximise potential and our success is built on service excellence, long-term relationships and technology capabilities that drive efficiency and add value.

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